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C O N F I D E N T I A L SECTION 01 OF 02 DJIBOUTI 000874

SIPDIS

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SUBJECT: U.S. COMPANY BLACK AND VEATCH ON DORALEH PORT AND
DJIBOUTIAN DEVELOPMENT

REF: DJIBOUTI 731

Classified By: Ambassador Marguerita D. Ragsdale.
Reasons 1.4 (b) and (d).

1. (U) SUMMARY: Ambassador and Pol/Econ met 22 June, with visiting Black & Veatch Corporation Director of International Consulting Engineering Services, Shahid Qadri, visiting Han Padron Associates Engineers Project Manager, Tony Bryan, and Director General of Djibouti International Airport, David Hawker, also an employee of Dubai Ports International, to discuss Black & Veatch's involvement in Djibouti. Black & Veatch, provides engineering consulting services to port projects throughout the world. It will focus on the water and electricity supply for Djibouti's new port facility at Doraleh. The meeting covered prospects for success of the Doraleh project and its impact on different sectors of Djibouti's economy. END SUMMARY.

2. (U) Black & Veatch's (BV) mission for this trip to Djibouti is an initial survey of Djibouti's port facilities in preparation for the master plan for Dubai Ports International that BV is developing on the country's transportation sector, including its marine and air ports, in cooperation with Han Padron (HP), a New York based marine engineering company. BV is also assessing Djibouti's infrastructure needs and available resources, as well as how BV might provide support. Qadri agreed that most companies are not in the business of charity, but what they can do often enhances development goals and opens doors for other investment opportunities. BV's role in HP's feasibility study is covering all bases relating to the Doraleh port, although its expertise and focus lies in water and electricity. The main question BV will answer is whether these two utilities should be supplied from existing units or whether new units should be constructed.

3. (C) HP representative, Tony Bryan, said he understood Electricite de Djibouti (EDD) is not planning to provide electrical power to the new Doraleh port. In meetings with EDD, EDD indicated its hope that Doraleh would generate its own power. EDD also said it would be receptive to a buy-back agreement should Doraleh choose to build a generator that could produce surplus energy. The surplus energy generated would then be sold to EDD. The comment was made that EDD projected a three percent growth rate for Djibouti, but had not yet created a plan to adapt production to the country's future population or economic growth requirements.

4. (C) Qadri stated that BV's mission is not to invest, but to research the necessary information to enable investors to make the best decisions about putting their dollars to optimum use. This information will be placed in the HP transportation sector/port master plan. BV also hopes the master plan will identify commercial options for other companies. BV and HP both commented that it was not necessary for the Port of Doraleh to pay the full cost of the investment needed to bring it to fruition. Rather, it was preferable to offer up investment opportunities to work in cooperation with the Port of Doraleh. Qadri commented that while investment potentials existed, the high cost of energy may be a deterrent.

5. (C) Ambassador noted that the three resident oil companies - Mobil, Shell and Total - were being required by the government of Djibouti to move to Doraleh. (See Reftel) She queried the representatives on whether, in their opinion, the storage tank rental arrangement with Emirates National Oil Company (ENOC) envisioned in the move might result in lower fuel costs. Bryan responded that the situation in Djibouti was akin to a can of worms and it might be better to start over with a new arrangement than try to untangle and sort out the current mess. Hawker added that the head of ENOC had told him that he had been pressuring the head offices of all three companies to get in on the Doraleh project for the past three years, but all had declined. Hawker said this may have been because the companies didn't think the project would succeed. However, now that the project is well underway and going well, he continued, Shell Aviation has apparently shown interest in getting in on it. Dubai Ports International (DPI), which manages the current port and airport, has announced that it will construct a new airport terminal to service Doraleh.

6. (C) On whether the new port would succeed, attendees of

the meeting seemed confident. However, all agreed with Ambassador that regional conflict might be the potentially disrupting factor. The question of how much it will improve the Djiboutian economic situation is still undetermined. Bryan commented that the current structure of employment in Djibouti was poor and that over-employment of people was endemic to the system. He continued that the new port will create a higher level of employment, giving those already highly-skilled a greater choice. This in turn would lead to the creation of lower level jobs. However, Bryan said, for a real change in the high unemployment level in Djibouti, matters may worsen before getting better. He said the Djiboutian economy will not pick up drastically until there is a period of vast unemployment, where the social welfare structure of the family can no longer provide for those unemployed. Another key to improving the economic situation is the lowering of salaries and exchange rates, two recommendations also made by the IMF and World Bank. However, the comment was made that the Djiboutian government may not be concerned about improvement in these areas as long as donor money is coming in. Qadri opined that the Government of Djibouti was now opting to try the economic/commercial development approach, which would eventually accomplish the same goals.

RAGSDALE